

**POLICY BULLETIN  
CHILD NUTRITION PROGRAMS**

**TEFAP 02-06**

**July 18, 2006**

**To: Utah Food Bank  
Davis Distribution Center**

**SUBJECT: Annual Physical Inventory-Reconciliation of Book  
Inventory to Physical Inventory**

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This memorandum provides instructions on how to reconcile the physical inventory conducted at a distributing agency (or subdistributing agency) level storage facility with the book inventory required to be maintained for that facility. This memorandum does not provide instructions on how to conduct the physical inventory, and presumes that the physical inventory is proper and complete. This memorandum also does not provide instructions on how to maintain the book inventory for the storage facility, and presumes that the proper controls are in place. The Food Distribution regulations require an annual physical inventory be conducted at all storage facilities at the distributing agency or subdistributing agency level. The regulations also require that complete inventory records be maintained by all such storage facilities. When the required physical inventory is completed, the book inventory must be reconciled to the physical inventory. The following is a method that can be used to reconcile:

1. The starting inventory for the current period is the physical inventory at the end of the previous period (the book inventory and physical inventory at the end of the previous period should have been reconciled and should agree).
2. Add to the starting inventory all deliveries to the storage facility during the current period. The resulting figure is the total inventory to be accounted for. The deliveries to the storage facility should be obtained from the books and records maintained by the State agency for distributing agency-level storage facilities.
3. Make all adjustments to the total inventory to be accounted for as identified during the current period. These adjustments can be the result of ongoing operations (for example, discovery of a discrepancy between amount shown on delivery ticket and amount actually delivered), or the result of claims actions (losses identified during the period, such as damage to commodities while in the warehouse, for example). These adjustments are intended to capture any changes identified in inventory levels during the

current period. These adjustments should be made at the same time as the inventory change is identified and must be completely documented.

4. Subtract from the total inventory to be accounted for all deliveries from the storage facility, as shown in the books and records of the storage facility. These deliveries can be to subdistributing agencies, to recipient agencies, or to recipients. As part of the required annual review, the State agency should verify the accuracy of these delivery records.

5. The resulting figures are the ending book inventory for all commodities. These are the figures that the physical inventory counts will be compared with. There must be an audit trail for these figures – all additions (deliveries to facility and positive adjustments) and subtractions (deliveries from facility and negative adjustments) must be supported by appropriate documentation.

6. Compare the item counts for each commodity in inventory with the ending book inventory for the current period. Note discrepancies between the physical count and book count for any commodity. The value of all shortages (physical inventory count is less than book inventory figure) must be determined and summed across all commodities. The sum of all shortages is the value of the loss identified as a result of the physical inventory. This loss must be reported to the State agency in accordance with the claims procedures.

7. The storage facility and/or the distributing agency or subdistributing agency must investigate any shortage identified to determine the cause of that shortage. Failure to completely investigate the shortage may be considered evidence that the shortage is the result of fraud, theft, or negligence and the storage facility may be held liable for the loss through the claims process. The results of the investigation must be supported by appropriate documentation.

8. The value of all overages (physical inventory count is greater than book inventory figure) must be determined and summed across all commodities. The sum of all overages is the potential offset against the loss identified as a result of the physical inventory. The storage facility must separately report the loss identified and the potential offset to the State agency; the storage facility does not have the authority to offset shortages with overages to reduce potential claims, so the total shortage must be reported.

9. The State agency should determine whether it will allow the storage facility to offset any of the loss with the overages identified. Any loss which results from fraud, theft, or negligence cannot be offset. The State agency should consider the factors provided in Policy Memorandum FD-052 when making this decision.

10. If the storage facility still has a loss after all permitted offsets are made, the State agency should determine which commodities will be identified as a loss for purposes of

making a claim determination. The State agency must then process the claim as provided in FNS Instruction 410-1.

To recap, to obtain the closing book inventory, perform the following calculations: Ending inventory in previous period, plus deliveries in during period, plus/minus adjustments during period, minus deliveries out during period, equals ending book inventory in current period. The ending book inventory is compared to the physical inventory, and the book inventory is reconciled to the physical inventory. Any shortages identified must be reported as a loss to the State agency, but the loss may be offset by overages that are identified, at the discretion of the State agency. The total loss is the sum of all shortages that are identified as a result of the reconciliation, less any offset approved by the State Agency.